

# KVCR-FM AND KVCR-TV

## AUDIT REPORT

FOR THE YEAR ENDED  
JUNE 30, 2013

San Diego

Los Angeles

San Francisco  
Bay Area

christy  white  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
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JUNE 30, 2013**

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# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
San Bernardino Community College District  
San Bernardino, California

### Report on the Financial Statements

We have audited the accompanying financial statements of KVCR-FM and KVCR-TV ("KVCR"), a public telecommunications entity operated by the San Bernardino Community College District, as of June 30, 2013 and the related statements of net assets, revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of KVCR's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As discussed in Note 1A, the financial statements present only the business-type activities of KVCR and do not purport to, and do not, present fairly the financial position of San Bernardino Community College District, as of June 30, 2013, and the changes in its financial position for the fiscal year then ended in conformity with generally accepted accounting principles.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KVCR-FM and KVCR-TV as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KVCR's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2013 on our consideration of KVCR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering KVCR's internal control over financial reporting and compliance.



San Diego, California  
December 18, 2013

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2013**

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	<u>2013</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,824,447
Accounts receivable	1,870
Prepaid expenses	1,351
Inventory	45,636
Pledges receivable, current portion	31,879
Total current assets	<u>2,905,183</u>
Long-term assets	
Pledges receivable, noncurrent portion	
Capital assets, net	2,034,983
Total long-term assets	<u>2,034,983</u>
Total assets	<u>\$ 4,940,166</u>
<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities	
Accounts payable	\$ 402,916
Deferred revenues	519,669
Total current liabilities	<u>922,585</u>
Total liabilities	<u>922,585</u>
Net assets	
Invested in capital assets, net of related debt	2,034,983
Unrestricted	1,982,598
Total net assets	<u>4,017,581</u>
Total liabilities and net assets	<u>\$ 4,940,166</u>

The notes to the financial statements are an integral part of this statement.

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2013**

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	<u>2013</u>
<b>OPERATING REVENUES</b>	
Program underwriting	\$ 471,263
Total operating revenues	<u>471,263</u>
<b>OPERATING EXPENSES</b>	
Program services	3,169,599
Supporting services	
Management and general	2,278,661
Fundraising	831,702
Total operating expenses	<u>6,279,962</u>
Operating income (loss)	<u>(5,808,699)</u>
<b>NONOPERATING REVENUES</b>	
Membership contributions and pledges	1,339,858
Grants from the Corporation for Public Broadcasting	782,149
Charitable gift agreement - San Manuel	1,000,000
Local grants and contributions	19,567
SCA/ITFS leasing	415,037
Investment income	10,281
Other income	326,444
Total nonoperating revenue	<u>3,893,336</u>
Income (loss) before other revenues, expenses, gains, losses, and transfers	<u>(1,915,363)</u>
<b>OTHER TRANSFERS</b>	
General apportionment from SBCCD	3,224,520
Total other transfers	<u>3,224,520</u>
Increase (decrease) in net assets	1,309,157
Net assets at beginning of year	<u>6,675,092</u>
Restatement (see Note 8)	<u>(3,966,668)</u>
Net assets at end of year	<u>\$ 4,017,581</u>

The notes to the financial statements are an integral part of this statement.

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013**

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	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Program underwriting	\$ 593,669
Program services	(3,948,888)
Payments to suppliers and employees	(3,004,976)
Net cash provided by (used in) operating activities	<u>(6,360,195)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
General apportionment from SBCCD	964,080
Grants and contracts	575,931
Membership contributions	560,569
Contracts other than for capital purposes	415,037
Net cash provided by (used in) noncapital financing activities	<u>2,515,617</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment income	10,281
Net cash provided by (used in) investing activities	<u>10,281</u>
Net increase (decrease) in cash	(3,834,297)
Cash at beginning of year	<u>6,658,744</u>
Cash at end of year	<u>\$ 2,824,447</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (5,808,699)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
(Increase) decrease in operating assets	
Accounts receivable	122,406
Prepaid expenses	72,166
Inventory	(2,179)
Increase (decrease) in operating liabilities	
Accounts payable	227,460
Compensated absences	(192,060)
Deferred revenues	(779,289)
Net cash provided by (used in) operating activities	<u>\$ (6,360,195)</u>

The notes to the financial statements are an integral part of this statement.



**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

KVCR-FM and KVCR-TV (“KVCR”) is a public telecommunications entity owned and operated by the San Bernardino Community College District (the “District”), which provides radio and television stations to the Inland Empire area of Southern California. These stations provide the public with a variety of musical, informational, and educational programming.

KVCR Educational Foundation, Inc. (the “Foundation”) was established in 1999 for the purpose of raising, holding, and investing funds for the benefit of KVCR. It is a nonprofit public benefit corporation that is an auxiliary organization of the District.

These financial statements are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the District’s activities that are attributable to KVCR. These financial statements include the assets, liabilities, revenues, and expenses of the Foundation, as well as, assets, liabilities, revenues, and expenditures of the District that are attributed to KVCR.

KVCR is a blended component unit of the District. These financial results are included in the financial statements of the District for the year ended June 30, 2013.

**B. Financial Statement Presentation**

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38.

**C. Basis of Accounting**

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Transactions between the Foundation and the District have been eliminated to ensure the effect has not been duplicated.

Non-exchange transactions, in which KVCR receives value without directly giving equal value in return, include District apportionments, pledges, grants, and contributions. Revenues from non-exchange transactions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**D. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Cash and Cash Equivalents**

KVCR considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents. Restricted cash are those amounts externally restricted as to use pursuant to the requirements of KVCR's contracts and agreements.

**F. Accounts Receivable**

Accounts receivable include amounts due from local underwriting sponsors, donors, and grantors.

**G. Prepaid Expenses**

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2013.

**H. Inventory**

Inventory consists primarily of unsold event tickets and other items that are sold by KVCR and/or distributed to donors in exchange for pledging a specified level of support. Inventory is recorded at the lower of cost or market, utilizing the first-in, first-out method.

**I. Pledges Receivable**

Pledges receivable consist of amounts due from station members, donors, and grantors. KVCR provides for an allowance for uncollectible pledges based on management's judgment of amounts that may not be received. Membership pledges outstanding for more than six months are written off unless there is a payment plan in place.

**J. Capital Assets**

Capital assets are long-lived assets of the District and include equipment, improvements, and vehicles. The District maintains an initial unit cost capitalization threshold of \$5,000. Assets are recorded at historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Routine repairs and maintenance that do not extend the useful life of the building or equipment are charged as operating expenses in the year the expense is incurred. Depreciation of capital assets is calculated using the straight-line method. Estimated useful lives of various classes of depreciable capital assets are as follows: improvements, 20 to 25 years; equipment and vehicles, 5 to 15 years.

**K. Compensated absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned.

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
 OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**L. Deferred Revenue**

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by KVCR prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when KVCR has a legal claim to the resources, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

**M. Revenues and Expenses**

KVCR has classified its revenues as either operating or non-operating according to the following criteria:

- Operating revenues include activities that have the characteristics of exchange transactions.
- Non-operating revenues include activities that have the characteristics of non-exchange transactions, and include other revenue sources described as non-operating in GASB Statement No. 34.

Operating expenses are necessary costs to operate the TV and radio stations. KVCR has classified all its expenses as operating expenses.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2013, consist of the following:

Cash in County Treasury	\$ 2,346,094
Cash in Banks	478,353
Total Cash and Cash Equivalents	<u>\$ 2,824,447</u>

**Cash in County Treasury**

The District is a voluntary participant in an external investment pool. The fair value of the District’s investment in the pool is reported in the District’s financial statements at amounts based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer. The Balance specified as *Cash in County Treasury* above is the portion of the District’s balance in the investment pool attributed to KVCR by the District.

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
 OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2013**

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**NOTE 2 – CASH AND CASH EQUIVALENTS (continued)**

**Cash in Bank**

Custodial credit risk is the risk that in the event of a bank failure, KVCR’s deposits may not be returned to it. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2013, no bank balance held in the District’s name was exposed to custodial credit risk.

For non-governmental entities, the FDIC insures 100% of balances in non-interest bearing accounts and up to \$250,000 per depositor in interest bearing accounts per insured bank. As of June 30, 2013, \$228,353 of the Foundation’s cash in bank was exposed to custodial credit risk.

**NOTE 3 – RECEIVABLES**

**Accounts receivable**

Accounts receivable as of June 30, 2013, consist of the following:

Accounts Receivable:	
Interest Income	\$ 1,870
Total Accounts Receivable	<u>\$ 1,870</u>

Management believes that no allowance for uncollectible accounts is necessary.

**Pledges receivable**

Pledges receivable as of June 30, 2013, consist of the following:

Pledges Receivable:	
Other pledge receivables	\$ 31,879
Total Pledges Receivable	<u>\$ 31,879</u>

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2013**

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**NOTE 4 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2013, consists of the following:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Balance at July 1, 2012	\$ 7,396,235	\$ 4,749,889	\$ 2,646,346
Additions	52,290	663,653	(611,363)
Retirements	50,439	50,439	-
Balance at June 30, 2013	<u>\$ 7,498,964</u>	<u>\$ 5,463,981</u>	<u>\$ 2,034,983</u>

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

**Grants from the Corporation for Public Broadcasting**

KVCR is funded in part through federal grants from the Corporation for Public Broadcasting (the “CPB”), which are paid through the District as the broadcasting licensee. Funds from the CPB are designated for the purpose of operating the station and are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

**Grant from the San Manuel Band of Mission Indians**

In April 2010, the Foundation entered into a grant agreement with the San Manuel Band of Mission Indians, a federally recognized Indian Tribe (the “Tribe”). The grant agreement stipulates that the Tribe provides a charitable gift of \$6,000,000 payable in \$1,000,000 installments every six months which began in April 2010. The funds are required to be segregated and restricted to funding the formation and operations of a Native American cultural channel (now known as “First Nations Experience” or “FNX”). FNX focuses on Native American culture, history, education, entertainment, and current events, and other Native American theme-related programming. Management of the new channel is under the direction of an Operating Committee comprised of five members representing the Foundation, station management, and the Tribe. Legal governance is controlled by the Foundation.

During the year ended June 30, 2013, KVCR received the final \$1,000,000 under the terms of the grant. KVCR spent approximately \$2,025,117 operating FNX.

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
 OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2013**

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**NOTE 6 – OPERATING LEASES**

The District leases unimproved land on Box Springs Mountain for KVCR’s broadcasting equipment. The lease term expires October 31, 2032. The lease calls for monthly payments of \$1,300, adjusted annually for change in the Consumer Price Index.

The District leases land in Palm Springs for additional broadcasting equipment. The five-year lease agreement was renewed for an additional five years commencing January 1, 2011. The terms of the lease provide for quarterly payments of rent.

The District leases a transmission tower on Blue Mountain for KVCR’s broadcasts. The lease was renewed in December 2008 for an additional five-year period. The lease calls for monthly payments in the amount of \$1,614, which increase annually on the anniversary date by 4 percent.

The Foundation entered into a translator lease agreement with PSTV Partners, LLC to lease television broadcast air time on PSTV in the Palm Springs area. The agreement expires in 2018.

Future minimum rental payments under the operating leases are as follows:

Year ending June 30,	Amount
2014	\$ 37,534
2015	32,331
2016	24,169
2017	15,600
2018	15,600
2019-2023	78,000
2024-2028	78,000
2029-2033	67,600
	<u>\$ 348,834</u>

**NOTE 7 – SUBSEQUENT EVENT**

During the year ended June 30, 2013, KVCR carried on its books two loans payable to the District, including an interfund loan of \$445,440 and a note payable of \$1,815,000. On 12/12/13, the District’s Governing Board approved management’s recommendation to forgive both loans, resulting in an adjustment to recognize the permanent transfer and the elimination of the liabilities during the 2012-2013 year.

**KVCR-FM and KVCR-TV, A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2013**

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**NOTE 8 – ADJUSTMENT FOR RESTATEMENT**

The following adjustment was made to restate beginning net position:

An adjustment of \$3,966,668 to decrease to beginning net position was made to account for corrections to prior year carrying values of assets and liabilities.